

Message Text

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72

ACTION EB-07

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NSCE-00 SSO-00 USIE-00 INRE-00 PA-02 PRS-01 ERDA-07

AID-05 CEA-01 CIEP-02 COME-00 FPC-01 H-02 INR-07

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SP-02 SS-15 STR-04 TRSE-00 FRB-01 TAR-01 /109 W

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 6354

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POUCHED TO ALL CONSULATES IN CANADA FOR INFO

E.O. 11652: N/A

TAGS: ENRG, CA, US

SUBJ: ENERGY: NATURAL GAS PRICE INCREASES

FOLLOWING IS FULL TEXT OF STATEMENT RELEASED BY ENERGY
MINISTER MACDONALD IN COMMONS AT 3 P.M. MAY 5 ON PRICING
OF NATURAL GAS EXPORT TO THE U.S.:

BEGIN QUOTE

IN SEPTEMBER LAST YEAR THE GOVERNMENT, FOLLOWING A
REPORT SUBMITTED BY THE NATIONAL ENERGY BOARD RECOMMENDING
THAT THE EXPORT PRICE OF NATURAL GAS BE BASED ON ITS COMMODITY
VALUE IN THE RELATED EXPORT MARKET AREAS, DECIED
THAT A UNIFORM BORDER PRICE OF \$1.00 PER THOUSAND
CUBIC FEET BE ESTABLISHED AS AN INITIAL STEP IN THIS
DIRECTION. ALTHOUGH THIS REPRESENTED AN AVERAGE INCREASE
OF 40 CENTS PER MCF, IT WAS STILL SUBSTANTIALY
LOWER THAN THE COMMODITY VALUE AT THAT TIME.

THIS NEW EXPORT PRICE BECAME EFFECTIVE IN ALL EXPORT

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LICENCES ON JAN 1, 1975 WITH THE EXCEPTION OF EXPORT S FROM

BRITISH COLUMBIA WHERE IT BECAME EFFECTIVE NOV 1, 1974.

WHEN I ANNOUNCED THIS INCREASE ON SEPTEMBER 20 LAST YEAR, I ALSO STATED THAT THE GOVERNMENT SUPPORTED THE BOARD'S VIEW THAT NATURAL GAS SHOULD BE PRICED IN A COMPETITIVE RELATIONSHIP TO ENERGY ALTERNATIVES IN THE UNITED STATES, AND AS A CONSEQUENCE PRICES SHOULD BE PROGRESSIVELY INCREASED TOWARDS ACHIEVING THE GOAL OF COMMODITY VALUE. THE GOVERNMENT HAS ON SEVERAL OCCASIONS INDICATED THAT THE SAME BASIC PRINCIPLES WERE TO BE FOLLOWED IN RELATION TO GAS PRICING IN CANADA. IN MY OPENING STATEMENT AT THE FEDERAL-PROVINCIAL CONFERENCE ON APRIL 9 AND 10 LAST, I SAID THAT IT IS FEDERAL GOVERNMENT POLICY TO SEE THE PRICE OF NATURAL GAS PHASED TO THE EQUIVALENT PRICE OF CRUDE OIL IN THEIR MAJOR CANADIAN MARKET. ONLY LAST WEEK WE LEARNED OF AN ARBITRATION DECISION WHICH, IF ALLOWED TO BE IMPLEMENTED, WOULD SEE PARITY PRICING ACHIEVED IN CENTRAL CANADA THIS YEAR. I HAVE ANNOUNCED MY INTENTION TO SEE THAT PROPOSED INCREASE REDUCED, BUT THIS DOES NOT LESSEN OUR INTENT TO MOVE IN A PHASED MANNER TO HAVE NATURAL GAS AND CRUDE OIL EQUIVALENTLY PRICED.

BEGIN UNDERLINE NEW PRICES EFFECTIVE AUGUST 1 AND NOVEMBER 1, 1975
END UNDERLINE

IN MARCH OF THIS YEAR, A FURTHER REVIEW OF ENERGY PRICES IN THE RELATED EXPORT MARKET AREAS WAS COMPLETED BY THE NATIONAL ENERGY BOARD WHICH, IN A SECOND REPORT, MADE NEW RECOMMENDATIONS CONCERNING THE EXPORT PRICING OF NATURAL GAS.

THE GOVERNMENT HAS REVIEWED THE BOARD'S RECOMMENDATIONS AND, WITH A FEW MINOR EXCEPTIONS, HAS DECIDED TO ESTABLISH, EFFECTIVE AUGUST 1, 1975, A NEW EXPORT PRICE OF \$1.40 PER THOUSAND CUBIC FEET AND TO ADJUST THAT PRICE UPWARDS TO \$1.60 ON NOVEMBER 1, 1975. IN ARRIVING AT THIS DECISION, THE GOVERNMENT BELIEVES THAT IT HAS SELECTED A MECHANISM WHICH, WHILE NOT ACHIEVING THE ULTIMATE OBJECTIVE OF FULL COMMODITY VALUE THIS
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YEAR, DOES PROCEED SUBSTANTIALLY TOWARD THAT GOAL IN LINE WITH THE PRINCIPLE EXPRESSED EARLIER. AS A RESULT OF THIS ACTION, THE NATIONAL ENERGY BOARD WILL BE AMENDING ALL LICENSES TO REFLECT THE NEW EXPORT PRICE.

ALTHOUGH THE BOARD HAD RECOMMENDED A MOVE TO \$1.60 PER THOUSAND CUBIC FEET, THE GOVERNMENT HAS DECIDED TO

PHASE TO \$1.40 AS A FIRST STEP TO EASE THE IMPACT IN THE EXPORT MARKETS, PARTICULARLY THOSE AREAS WHICH ARE TOTALLY DEPENDENT ON CANADIAN NATURAL GAS.

THE BOARD RECOMMENDED THAT AN EXCEPTION BE MADE IN THE CASE OF LICENCE GL-29 HELD BY ICG TRANSMISSION WHICH SELLS SOME 94 PER CENT OF THE AUTHORIZED EXPORT VOLUMES TO A SINGLE LARGE INDUSTRIAL CUSTOMER LOCATED IN MINNESOTA, DIRECTLY ACROSS THE BORDER FROM FORT FRANCES, ONTARIO. A PRICE OF \$1.30 PER THOUSAND CUBIC FEET HAS BEEN ESTABLISHED BY THE BOARD AS BEING REPRESENTATIVE OF THE COMMODITY VALUE IN THAT MARKET AREA WHERE, AT THE PRESENT TIME, COAL IS THE ONLY VIABLE ALTERNATIVE FUEL. THE GOVERNMENT HAS ADOPTED THE BOARD'S RECOMMENDATION AND A PRICE OF \$1.30 PER THOUSAND CUBIC FEET WILL BE EFFECTIVE ON AUG 1, 1975.

THE SECOND EXCEPTION PROVIDES FOR CONTINUING THE SPECIAL PRICE FOR PAN-ALBERTA GAS SHIPPED ON THE WEST-COAST SYSTEM ON A SHORT TERM CONTRACTUAL BASIS TO ALLEVIATE THE SHORTFALL IN WESTCOAST'S CONTRACTUAL DELIVERIES TO THE PACIFIC NORTHWEST AREA OF THE UNITED STATES.

IN ADDITION, THE GOVERNMENT HAS AGREED WITH THE BOARD'S RECOMMENDATION THAT AN EXCEPTION BE MADE FOR THOSE SMALL QUANTITIES OF WINTER PEAKING GAS WHICH ARE TRADITIONALLY SOLD AT HIGHER PRICES IN CANADA AND IN THE UNITED STATES.

BEGIN UNDERLINE REASONS FOR INCREASE END UNDERLINE

THE NATIONAL ENERGY BOARD'S REASONS FOR RECOMMEND-
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ING AN INCREASE IN THE EXPORT PRICE AT THIS TIME WERE BASED ON THE FOLLOWING CONSIDERATIONS:

1. THE COMMODITY VALUE IN THE RELATED UNITED STATES MARKET AREAS ROSE BY AN AVERAGE EQUIVALENT TO 20 CENTS PER THOUSAND CUBIC FEET DURING THE PERIOD BETWEEN THE BOARD'S INITIAL AND SECOND REPORTS, THEREFORE AN INCREASE IN THE EXPORT PRICE OF THIS MAGNITUDE ALONE WOULD BE NECESSARY JUST IN ORDER TO MAINTAIN THE SAME RELATIVE POSITION.

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2. IN ADDITION, SINCE THE EXPORT PRICE HAS NOT YET ATTAINED ITS COMMODITY VALUE IN THE RELATED MARKET AREAS, AN INCREASE IS NECESSARY ALSO TO ALLOW THE PRICE TO MOVE PROGRESSIVELY TOWARDS THAT GOAL.

3. IT HAS BEEN A PRINCIPLE OF GAS EXPORT MARKETING THAT THE PRICE SHOULD BE AT LEAST EQUAL TO THE CANADIAN PRICE FOR CANADIAN CONSUMERS; AS DOMESTIC PRICES ARE ANTICIPATED TO RISE, EXPORT PRICES SHOULD ALSO INCREASE IN ORDER TO OBTAIN AN APPROPRIATE RELATIONSHIP BETWEEN THE TWO.

4. HIGHER PRICES ARE NEEDED TO IMPROVE THE NETBACK TO PRODUCERS SO AS TO STIMULATE ADDITIONAL SOURCES OF SUPPLY AND HELP ALLEVIATE THE SHORTAGE IN CANADA WHICH THREATENS OUR ABILITY TO MEET CANADIAN REQUIREMENTS AS WELL AS EXPORT COMMITMENTS.

5. THE REPLACEMENT-PROBABLY FROM FRONTIER AREAS-OF THE GAS CURRENTLY BEING EXPORTED WILL INVOLVE HIGHER COSTS THAN THOSE ESTIMATED AT THE TIME OF THE BOARD'S PREVIOUS REPORT.

ADDITIONAL REVENUES TO PRODUCERS
THE GOVERNMENT WILL CONTINUE ITS POLICY INTENDED TO ENSURE THAT
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THE ADDITIONAL REVENUES RESULTING FROM THE INCREASE IN PRICE ARE DISTRIBUTED TO THE PRODUCERS OF NATURAL GAS IN CANADA TO ENCOURAGE THE DEVELOPMENT OF ADDITIONAL SOURCES OF SUPPLY AND STIMULATE PRODUCTION. THIS IS PARTICULARLY IMPORTANT AT THIS TIME, IN LIGHT OF THE AMPLE EVIDENCE GIVEN TO THE BOARD THAT DELIVERABILITY FROM CONVENTIONAL RESERVES IS DECLINING AND THAT NEW RESERVES ARE NEEDED TO ASSURE SUPPLIES FOR EXISTING AND FUTURE REQUIREMENTS.

THE INCREASE IN THE EXPORT PRICE OF NATURAL GAS WILL RESULT IN ADDITIONAL REVENUES OF ROUGHLY \$583 MILLION PER YEAR. THE CANA-\$8-, 0390)3 28)) 9* :974 3 SHARE IN THESE REVENUES THROUGH THE OPERATION OF THEIR TAXATION SYSTEMS, AND THE AMOUNT INVOLVED IS SIGNIFICANT IN RELATION TO OUR CURRENT BALANCE OF PAYMENTS SITUATION.

AN EXCEPTION IN THE FLOW-BACK OF PROCEEDS TO PRODUCERS WILL AGAIN BE MADE IN THE CASE OF BRITISH COLUMBIA WHERE ADDITIONAL REVENUES WILL GO IN THE FIRST INSTANCE TO THE BRITISH COLUMBIA PETROLEUM CORPORATION WITH THE EXPECTATION THAT B.C.P.C. WILL TAKE THE NECESSARY STEPS NEEDED TO STIMULATE THE PRODUCTION OF GAS IN THAT PROVINCE.

IN THE CASE OF ALBERTA, THE GOVERNMENT HAS DECIDED THAT THE PROCEEDS RESULTING FROM HIGHER PRICES SHOULD BE DISTRIBUTED TO PRODUCERS IN ALBERTA ON A BASIS WHICH IS MUTUALLY ACCEPTABLE TO THE ALBERTA AND FEDERAL GOVERNMENTS. OFFICIALS IN CONJUNCTION WITH THOSE OF THE GOVERNMENT OF ALBERTA WILL BE STUDYING THE MECHANISM TO BE USED IN INSTITUTING THIS POLICY.

THE EFFECTIVE DATE OF THE FIRST MOVE IN THE EXPORT PRICE, AUGUST 1, 1975, WILL ALLOW IMPORTERS OF CANADIAN GAS THE TIME TO OBTAIN THE NECESSARY UNITED STATES REGULATORY APPROVALS. AS I HAVE STATED SEVERAL TIMES IN THE PAST, IT HAS BEEN THE INTENTION OF THE GOVERNMENT OF CANADA TO RAISE THE EXPORT PRICE OF NATURAL GAS PROGRESSIVELY. IT IS PROBABLE THAT THE NEXT INCREMENT OF PRICE, BEYOND THAT OF NOVEMBER 1, WILL RESULT IN THE ATTAINMENT OF COMMODITY VALUE IN SEVERAL MARKET AREAS, AND THAT PRICES WILL VARY FROM ONE LICENCE HOLDER TO ANOTHER AS A CONSEQUENCE.

AS A RESULT OF THE FIRST MINISTERS' CONFERENCE AT THE BEGINNING
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OF APRIL, PROVINCIAL AND FEDERAL OFFICIALS ARE CONTINUING DISCUSSIONS WITH RESPECT TO THE PRICING OF NATURAL GAS IN CANADA. WE HOPE THAT THESE DISCUSSIONS WILL DEVELOP A CONSENSUS FOR A NEW DOMESTIC PRICE EFFECTIVE ON NOVEMBER 1. UNDERLYING THESE DISCUSSIONS IS THE FEDERAL GOVERNMENT'S POSITION THAT PRICING

POLICY IN BOTH DOMESTIC AND EXPORT MARKETS SHOULD BE RELATED TO THE COMMODITY VALUE OF NATURAL GAS IN THE MARKET PLACE AS THE MOST DESIRABLE MEANS, AT THIS TIME, OF ASSISTING THE DEVELOPMENT AND CONTINUATION OF GAS SUPPLIES AND PREVENTING WASTEFUL USAGE OF THIS PREMIUM FUEL. END QUOTE.

JOHNSON

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